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September 18, 2008

*Sent Via E-Mail*

The Honorable Michelle Steel  
Chair, Property Tax Committee  
California State Board of Equalization  
450 N Street  
Sacramento, CA 94279-0001

**Re: Objection to Adding Economic Lives to Assessors' Handbook  
Issue Paper No. 08-009 (Assessors' Handbook Section 581)**

Dear Chairwoman Steel:

The Council On State Taxation (COST) disagrees with the California State Board of Equalization's (SBE) staff recommendation that economic lives for equipment should be added to the Assessors' Handbook Section 581 as proposed in Issue Paper No. 08-009.

**About COST**

COST is a nonprofit trade association based in Washington, D.C. COST was formed in 1969 as an advisory committee to the Council of State Chambers of Commerce. Today COST has grown to have an independent membership of more than 610 major corporations engaged in interstate and international business. COST's objective is to preserve and promote the equitable and nondiscriminatory state and local taxation of multijurisdictional business entities.

**Proposed Economic Lives Are Not Based On An Adequate Study**

The principal concern COST has with the SBE including the proposed economic lives for various equipment categories in the Assessors' Handbook is that the proposed lives are not based on an adequate study. As acknowledged by the SBE staff, "Only a portion of the economic lives recommended in Alternative 1 are the result of an in-depth lifing study." Before the SBE adopts the California Assessors' Association's (CAA) economic lives, the SBE needs to conduct a thorough study, which includes obtaining input from those using the listed equipment in California.

In the Issue Paper, the SBE staff states that a verification of the CAA economic lives was made in 2000. Such verification is woefully out-of-date. There is also a finding in the Issue Paper that the CAA economic lives are comparable to those in the Marshall Valuation Service, IRS Publication 946, and several other states. Such comparisons, however, do not constitute an adequate study.

The Issue Paper asserts that the SBE should reincorporate the economic lives back into the Assessors' Handbook Section 581 (eliminated in 1996) to achieve greater uniformity. However, before the SBE Board incorporates economic lives into the Handbook, the SBE needs to establish a legitimate process where the SBE staff conducts its own independent research, holds hearings, and allows all interested parties to make comments to the proposed economic lives. Input from those using the equipment for which the SBE is proposing adopting (or changing) an economic life is critical to any study of this type. The SBE staff proposal simply adopts the CAA's economic lives; this runs afoul of having an independent process to legitimately place the economic lives into the Handbook.

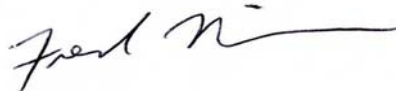
Incorporation of the CAA economic lives in the 2009 Handbook also has the potential to undermine the SBE's credibility with the courts. Guidelines published by the SBE are usually held in high regard. The courts, however, are unlikely to blithely follow the proposed economic lives when the Issue Paper acknowledges that this proposal is just a "starting point" until the SBE staff obtains better data.

Finally, prior to publishing economic lives in the Handbook, the SBE must establish fair and objective procedures that allow taxpayers (and assessors) to present additional evidence (such as accelerated obsolescence) that indicates a fair market value that is different from that derived from the published tables. Economic lives are only guidelines to assist taxpayers and assessors with the mass appraisal of property. Most importantly, the burden of proof on a taxpayer to prove the property's fair market value must not be insurmountable.

### **Conclusion**

COST respectfully requests the SBE Board reject the staff recommendation to incorporate the proposed economic lives in Attachment C of Issue Paper No. 08-009. The SBE Board should direct its staff to conduct a comprehensive study, with industry participation, of the proposed economic lives. Thank you for your consideration.

Sincerely,

A handwritten signature in dark ink, appearing to read "Fred Nicely", with a stylized flourish at the end.

Fred Nicely

cc: Judy Chu, Chairwoman, California State Board of Equalization  
Betty T. Yee, Vice Chair, California State Board of Equalization  
Bill Leonard, Member, California State Board of Equalization  
John Chiang, Ex-Officio Member, California State Board of Equalization  
Ramon J. Hirsig, Executive Director, California State Board of Equalization  
Doug Lindholm, President & Executive Director, COST  
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Allan Zaremborg, President, California Chamber of Commerce  
Teresa Casazza, President, California Taxpayers' Association